Supreme Court, U.S.
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No. 09-819

In the Supreme Court of the United States

SAP AG AND SAP AMERICA, INC.,
Petitioners,
v.
SKY TECHNOLOGIES LLC,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

REPLY IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI

PAUL S. GREWAL
grewalp@howrey.com
Counsel of Record
LLOYD R. DAY, JR.
ROBERT M. GALVIN
RENEE DUBORD BROWN
HOWREY LLP
1950 University Avenue,
4th Floor
East Palo Alto, CA 94303
(650) 798-3500

Counsel for Petitioners
SAP AG and SAP America, Inc.
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RULE 29.6 STATEMENT

Petitioners, SAP AG and SAP America, Inc., are publicly held companies. SAP AG is the parent corporation of SAP America, Inc. and holds more than 10% of the stock of SAP America, Inc. SAP AG has no parent corporation and no publicly held corporation holds more than 10% of SAP AG's stock.

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REPLY IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI

INTRODUCTION

The Court of Appeals for the Federal Circuit's creation of a new class of persons entitled to enforce a United States patent has abruptly displaced the plain language of Congress' scheme for patent ownership and enforcement with a scheme of its own devising. By treating the *federal* "in writing" requirement for assignments as subordinate to *state* law that requires no such writing at all, the Federal Circuit's decision destroys the settled expectations of countless patent owners and investors who rely upon the written assignment requirement to govern the transfer of patent ownership.

Since 1836, Congress, in certain and unchanged terms, has provided that a U.S. patent "*shall* be assignable in law" by an "instrument in writing." Patent Act of 1836, ch. 357, 5 Stat. 117, §11 (July 4, 1836) (Petitioners' App. at 89a)[1] (emphasis added); 35 U.S.C. §261. In no less certain terms, Congress has limited the authority to enforce that federal monopoly only to "assigns" and two other classes: "the patentee" and "his heirs." *See* 35 U.S.C. §154(a)(1), 281. The Federal Circuit's creation of a new class of state law "transfer[ee]s" entitled to

[1] Petitioners' App., as used herein, refers to the appendix Petitioners submitted with their Petition for a Writ of Certiorari. Petitioners' Supplemental App. refers to the appendix submitted with this Reply.

standing to enforce a U.S. patent without a written assignment conflicts with this well-settled statutory framework as well as this Court's precedent holding that standing is limited to "none but these" classes. *See Crown Die & Tool Co. v. Nye Tool & Mach. Works*, 261 U.S. 24, 40-41 (1923).

As both *Amici Curiae* The Twenty-Second Century Foundation and the Independent Film & Television Alliance point out, the public, third parties, patent owners, patent purchasers, the United States Patent and Trademark Office, and the Courts, all rely on the clarity and certainty provided by Congress' written assignment requirement. *See Amici Curiae* Br. at 7. What is at stake here is therefore not only the fundamental jurisdictional question of who may invoke the Article III power of the federal courts but also the certainty of, what Respondent itself describes as a "virtually infinite number of secured transactions" involving patents. *See* Respondent's Br. at ii, 31.

Respondent argues that (i) certiorari should not extend to the Federal Circuit's decision because of the interlocutory nature of the appeal below; (ii) in seeking certiorari, Petitioners ask for a "sweeping" new rule of federal preemption; and (iii) the Federal Circuit's decision is consistent with "settled precedent." These arguments are without merit.

Because of the Federal Circuit's unique and exclusive jurisdiction over patent cases, only this Court's timely intervention can prevent the Federal Circuit's mistake from quickly spreading throughout the nation. *See Cardinal Chem. Co. v. Morton Int'l Inc.*, 508 U.S. 83, 89 (1993).

ARGUMENT

A. The Federal Circuit's decision is appropriate for this Court's review because it involves an issue "fundamental to the further conduct of this case"

When an issue is "*fundamental* to the further conduct of [a] case" this Court does not hesitate to review non-final judgments. *Land v. Dollar*, 330 U.S. 731, 735 n.2 (1947) (emphasis added). *Land*, for instance, involved a non-final judgment reinstating a dismissed case. *Id.* at 734. This Court nevertheless granted the petition for a writ of certiorari because of the importance of the question presented. *Id.* at 734.

Recently in *Sprint Communications Co. v. APCC Services, Inc.*, this Court reviewed a non-final judgment of the Court of Appeals for the District of Columbia Circuit involving a question of assignee standing. 128 S. Ct. 2531, 2535 (2008). As this Court explained, certiorari was appropriately granted because the D.C. Circuit's holding that the plaintiffs had standing as assignees involved one of "the most basic doctrinal principles"—Article III, §2's restriction that the federal "judicial Power" may only resolve "Cases" and "Controversies." *Id.* (citing U.S. Const. art. III, §2).

This case similarly presents an issue of standing that is "fundamental to the further conduct" of the case. If Respondent lacks standing, no further proceedings may occur before the District Court because it would lack the Article III power necessary to hear this case.

As this Court explained in *Crown Die*, under the Patent Act, only the "person or persons in whom legal title to the patent resided at the time of the infringement" have standing to sue for infringement. 261 U.S. at 40-41. Legal title, by the very terms of the Patent Act, can only be held by "the patentee, his assignee, his grantee, or his personal representative; and *none but these* are able to maintain an action for infringement in a court of law[.]" *Id.* (emphasis added); *see also* 35 U.S.C. §154(a)(1). The Federal Circuit's decision, however, ignores *Crown Die* and permits the states to create additional, non-statutory classes of patent owners—including "transfer[ee]s—who may take title without "an instrument in writing." 35 U.S.C. §261.

B. "Sweeping" new rules of federal preemption would result from a denial of certiorari, not a grant

This dispute arises from the Federal Circuit's flawed conclusion that the *states* and *foreign governments* may dictate who has standing to enforce *federal* patent rights. *See, e.g.* Respondent's Br. at 2; *Amici Curiae* Br. at 4. It is a wholly unnecessary dispute because, as the *Amici Curiae* point out, the Uniform Commercial Code ("U.C.C."), which the Federal Circuit relied on, applies only to *rights* in collateral, not *title* to collateral: "the provisions of this title with regard to rights and obligations apply *whether title to collateral is in the secured party or the debtor*." *Amici Curiae* Br. at 10 (citing U.C.C. §9-202 (Petitioners' Supplemental App. 1a)) (emphasis original). The U.C.C. does not "attempt to define whether the secured party is a 'legal' owner" and

defers to "other rules of law" with respect to "location and source of title." U.C.C. §9-202 cmt. 3b (Petitioners' Supplemental App. 1a-2a); *see also Amici Curiae* Br. at 10.[2] Because Section 261's requirement that assignments must be "by an instrument in writing," is such a rule of law, the U.C.C. defers to it. *See Amici Curiae* Br. at 10-11.[3] Given the U.C.C.'s ubiquity, *see Delaware v. New York*, 507 U.S. 490, 503-04 (1993) (stating that the U.C.C. "is the law in all 50 states and the District of Columbia"), the Federal Circuit's misunderstanding of this fundamental principal underlying the U.C.C. is an issue of national importance.

Respondent highlights the national importance of harmonizing *federal* and *state* regulations of *federal* patent rights by the questions posed in its opposition, including whether the

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[2] Contrary to Respondent's assertions, the secondary sources that Respondent urges this Court to consider in support of the Federal Circuit's incorrect view of the U.C.C., *see, e.g.* Respondent's Br. at 31 (citing Thomas L. Bahrick, *Security Interests in Intellectual Property* ("Bahrick"), 15 A.I.P.L.A. Q. J. 30, 48 (1987)), acknowledge that the U.C.C. does not address questions of *title*. *See, e.g.*, Bahrick at 40 (stating that "[t]he UCC specifically provides that it supplies no answer to the question of whether title is in the debtor or the secured party upon the creation of a security interest" and that "the conventional security agreement does not operate to transfer title").

[3] While the definition of "patentees" includes "successors in title to the patentee," 35 U.S.C. §100(d) , any such successors cannot take title by operation of the U.C.C.'s provisions given that the U.C.C. explicitly defers to other rules of law regarding the "location and source of title." U.C.C. §9-202 cmt. 3b (Petitioners' Supplemental App. 1a-2a).

Section 261 written assignment requirement *preempts* contrary provisions of the U.C.C., and whether Section 154's list of patent owners precludes expansion by the states. *See* Respondent's Br. at i-ii. Respondent admits that these fundamental questions at the intersection of *federal* patent law and *state* commercial law may affect "a virtually *infinite* number of secured transactions" involving patents, Respondent's Br. at ii, 31 (emphasis added). For that very reason, this petition should be granted.

Petitioners agree with Respondent that the coexistence of competing *federal* and *state* regulations regarding the ownership of *federal* patent rights was "well-settled" before the Federal Circuit's decision. *See Id.* at 2. Although Respondent rightly points out that the Patent Act does not displace every state law relating to federal intellectual property rights, *Id.* at 16, Respondent fails to inform this Court that when "the question of standing in patent cases" is involved, courts rely on "*federal law*," *not state law*. *See, e.g., Board of Trustees of Leland Stanford Junior Univ. v. Roche Molecular Sys., Inc.*, 583 F.3d 832, 841 (Fed. Cir. 2009) (emphasis added).

As this Court has noted, while the states are free to provide additional safeguards to patent transfers beyond Congress' written assignment requirement, *see, e.g., Allen v. Riley*, 203 U.S. 347, 356 (1906), the states are forbidden from enacting laws that "nullif[y] the laws of Congress which regulate [their] transfer, and destroy the power conferred upon Congress by the Constitution." *Id.* at 355. This case squarely presents the Federal

Circuit's radical departure from this rule by allowing the *states* to circumvent Congress' rules for determining which parties have standing to assert *federal* patent rights.[4] *See, e.g.*, Petitioners' App. 15a.

C. The Federal Circuit's decision cannot be reconciled with this Court's precedent

This Court's landmark decisions interpreting the same language of the Patent Act at issue here cannot be dismissed merely because they "predate the first version of the UCC by as much as 100 years or more." Respondent's Br. at 20. Congress' repeated use of consistent language in Section 261 since 1870 requires courts to apply the decisions of this Court interpreting that language: "[w]e must give the words of the [patent] statute the meaning they had in 1870, the year in which the current version of §261 was enacted." *In re Cybernetic Servs., Inc.*, 252 F.3d 1039, 1048 (9th Cir. 2001) (citing *Perrin v. United States*, 444 U.S. 37, 42 (1979)).

The adoption of the U.C.C. by the states is not a talismanic event that revoked the Supremacy Clause. U.S. Const. art. VI, cl. 2. Ever since

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[4] The Federal Circuit's decision and Respondent's position also require this Court to affirm the Federal Circuit's untenable holding that although *federal* law governs Section 261's bona fide purchaser defense, *see Rhone-Poulenc Agro, S.A. v. DeKalb Genetics Corp.*, 284 F.3d 1323, 1327-28 (Fed. Cir. 2002), *state* law governs Section 261's written assignment requirement, upon which the bona fide purchaser defense is based.

Congress enacted the first Patent Act in 1790, the rule is that "state regulation of intellectual property *must yield* to the extent it clashes with the balance struck by Congress in our patent laws." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 152 (1989) (emphasis added). To the extent the U.C.C. is contrary to this Court's interpretation of the Patent Act's language,[5] it is the U.C.C. that must yield.

The Federal Circuit's decision, however, requires *federal* patent law to yield to *state* creditor law. This, being contrary to this Court's precedent, is beyond the Federal Circuit's ability to decree, *see, e.g.*, *State Oil Co. v. Kahn*, 522 U.S. 3, 22 (1997), and requires the rejection of *four* of this Court's essential precedents interpreting the language of the Patent Act: *Ager v. Murray*, 105 U.S. 126 (1881), *Waterman v. Mackenzie*, 138 U.S. 252 (1891), *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 187 (1933), and *Crown Die & Tool Co. v. Nye Tool & Mach. Works*, 261 U.S. 24, 40-41 (1923).

In *Ager*, this Court held that creditors under *state* law needed a written assignment to obtain a debtor's patent rights: "[t]he debtor's interest in the patent-rights is property, *assignable* by him, and which *cannot be taken on execution at law*." 105 U.S. at 131 (emphasis added). When a debtor was unwilling or unable to execute the written

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[5] The U.C.C., properly interpreted, is entirely consistent with this Court's decisions because the U.C.C. deals with *rights* in collateral, not *title* to collateral. *See, e.g., Amici Curiae* Br. at 5-8; U.C.C. §9-202 (Petitioners' Supplemental App. 1a-2a).

assignment required by the Patent Act, this Court held that the creditor's remedy was to seek the appointment of a trustee to execute the written assignment. *Id.* The Federal Circuit, however, rejected this Court's holding and ruled that creditors need not seek a written assignment following foreclosure on a security interest in a patent. Petitioners' App. 10a-11a.

In *Waterman*, this Court held that only one possessing (1) "the whole patent," (2) an "undivided part of share" of a patent, or (3) the "exclusive right under the patent within and throughout a specified part of the United States" had standing to sue for patent infringement. 138 U.S. at 255. This Court explained that "a *transfer* of either of these three kinds of interests is *an assignment*" that provided the assignee with "a right to sue infringers." *Id.* (emphasis added). Although *Waterman*'s holding is as valid today as in 1891, *see e.g.*, *Cybernetic Servs.*, 252 F.3d at 1051-1052, the Federal Circuit disregarded its holding by differentiating between unwritten "transfers" and written "assignments." *See* Petitioners' App. 11a.

Following *Waterman*, this Court again made clear that "[a] patent is property, and title to it can pass *only by assignment*." *Dubilier*, 289 U.S. at 187 (emphasis added); *see also Oliver v. Rumford Chem. Works*, 109 U.S. 75, 82-83 (1883) (noting that an "assignment" involves a transfer of patent title). This Court explained that even if an inventor was "employed to make an invention," his or her employer would still need a written assignment to transfer any patent rights. *Id.* In contrast to the

Federal Circuit, this Court drew no distinction between unwritten "transfers" and written "assignments."

The only distinction of *Dubilier* that Respondent offers is this Court's statement that a valid contract to assign patent rights can be "specifically enforced." Respondent's Br. at 27 (citing *Dubilier*, 289 U.S. at 187). Rather than distinguish this Court's decision, it underscores this Court's consistent approach to Congress' written assignment requirement. Just as a creditor may need a court appointed trustee to execute a post-foreclosure written assignment from a debtor-patentee, *see Ager*, 105 U.S. at 131, so too may a party need a court to order specific performance of a contract agreeing to assigning patent rights. *Dubilier*, 289 U.S. at 187. This, in no way, alters this Court's holding that patent title "can pass *only by assignment*." *Id.* (emphasis added).

Finally, in *Crown Die*, this Court held that only the set of persons that Congress had specified as patent owners could sue for patent infringement. 261 U.S. at 40-41. These patent owners were "the patentee, his assignee, his grantee, or his personal representative."[6] *Id.*; *see also* 35 U.S.C. §154(a)(1) (providing for the patent grant to a "patentee, his heirs, or assigns"). The Federal Circuit, however,

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[6] A "grantee" is an "assignee" that only has an "exclusive territorial interest in the patented invention." *Moore v. Marsh*, 74 U.S. 515, 521 (1868). A "personal representative" is the representative of a deceased or incapacitated patent owner. *See* Patent Act of 1870, ch. 230, 16 Stat. 198-217, §34 (July 8, 1870), Revised Stat. §4896 (App. 91a); 35 U.S.C. §117.

wholly ignored this binding precedent and simply dismissed the Patent Act as "not restrict[ing] patent ownership to these three classes of individuals" and not "addressing *transfers* of ownership." Petitioners' App. 14a (emphasis added).

CONCLUSION

Petitioners respectfully urge this Court to grant their Petition for a Writ of Certiorari to correct the Federal Circuit's error before it is followed and perpetuated throughout the nation.

Respectfully submitted,

PAUL S. GREWAL
grewalp@howrey.com
Counsel of Record
LLOYD R. DAY, JR.
ROBERT M. GALVIN
RENEE DUBORD BROWN
SRIRANGA R. VEERARAGHAVAN
HOWREY LLP
1950 University Avenue, 4th Floor
East Palo Alto, CA 94303
(650) 798-3500

Counsel for Petitioners
SAP AG and SAP America, Inc.